

Joint-Stock Company

"Liepājas metalurģs "

Reg.nr. 40003014197

Consolidated  
Annual Report

For the year ended 31 December 2007

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**BDO Invest Rīga**  
Auditorfirmā

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## INDEPENDENT AUDITOR'S REPORT

To shareholder of "Liepājas Metalurģs" AS

### Report on the financial statement

We have performed the audit of the consolidated financial statement incorporated in the annual report of "Liepājas Metalurģs" AS, registration No.40003014197, and its subsidiaries (hereinafter – Group) for the year 2007. The audited consolidated financial statement comprises the balance sheet as of 31 December 2007, the profit or loss account for the year 2007, the report on the changes in equity, and the cash flow statement for the year ended December 31, 2007, as well as a summary on the relevant accounting principles, as well as other explanatory information presented in the Appendix.

#### *Management responsibility on the presentation of the financial statement*

The management of "Liepājas Metalurģs" AS is responsible for drawing up of the financial statement and accuracy of the information contained in the said report pursuant to the International Financial Reporting Standards. This responsibility implies establishment, implementation and maintenance of such internal control that is to ensure the drawing up and true and fair presentation of the financial report that is free from material misstatement resulting from fraudulent activity or errors, selection and use of an appropriate accounting policy, as well as preparation of accounting estimates suitable in the particular conditions.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial statement based on our audit. We performed the audit in accordance with the International Standards on Audit recognized in Latvia. These standards stipulate ethical norms to be observed by the auditor and require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

The audit includes procedures undertaken to obtain audit evidence on the amounts presented in the financial statements and the information disclosed. The procedures are selected based on the auditor's professional judgement, including assessment of risk of fraudulent misrepresentation or material discrepancies in the financial statement. When performing risk assessment, the auditor takes into account internal control established to ensure the drawing up of the financial statements and accurate presentation of information in the reports aimed at determining the most appropriate procedures in the particular situation, rather than expressing an opinion on the efficiency of control. The audit also includes general evaluation of whether the applied accounting principles and relevant management assumptions, as well as the information presented in the financial statements are reasonably justified.



We believe that the disclosures made in the course of our audit are sufficient and adequate to express our auditor's opinion.

*Opinion*

In our opinion, the consolidated financial statement presents fairly, in all material respects the financial position of the Group as of December 31, 2007, and of the results of its financial performance and cash flows for the year 2007 in accordance with the International Financial Reporting Standards.

**Report on the conformity of the management report**

We have familiarised ourselves with the management report for the year 2007, and have not disclosed any material discrepancies between the financial information presented in the management report and the consolidated financial statement for the year 2007.

BDO Invest Riga" JSC  
Certified auditors Commercial Company  
Licence No. 112

D.Tunsts  
International Liaison Partner



Riga, Latvia  
April 11, 2008

A.Putniņš  
The responsible certified auditor  
Certificate No.123

## INFORMATION ABOUT THE COMPANY

JSC "Liepājas metalurģs" is a public joint-stock company, which operates in compliance with the Republic of Latvia law. The Company was registered in the Business Register of the Republic of Latvia on August 6, 1991 and it was reregistered in the Commercial Register of the Republic of Latvia on August 7, 2003 under the unified register No. 40003014197. The main activities of the Company are production of steel, rolled products and hardware, commerce and mediator activity, transport services, sports and medical services.

JSC "Liepājas metalurģs" has an ownership in various companies. In 2006 the Company further diversified its holding investing in several new companies. At the same time the Joint-Stock Company is not registered as a holding company (corporation).

### Companies included in consolidation:

LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM)

number of shares - 95.17%.  
Business type - stevedoring services, cargo, ship broker service, ship agency.

Ltd. "Football Hockey Club Liepājas metalurģs"

number of shares - 95%.  
Business type - organization of sporting events, promotion of healthy living, organization of recreation and social events.

Ltd. "Olympic Center Ice-Hockey Hall Liepājas metalurģs"

number of shares - 90%.  
Business type - operation of the sport hall and stadium.

Ltd. "Rūķis LM"

number of shares - 100%.  
Construction materials production, waste and crushed slag processing.

### Companies not included in consolidation:

Ltd. "SMA LM Mineral"

number of shares - 50%.  
production of lime, services.

JSC "Sātiņi LM"

number of shares - 100%.  
limestone extraction, processing, and realization.

Ltd. "Elme-Messer-Metalurģs"

number of shares - 49%.  
production of industrial gas.

JSC "Liepājas tranzīta ekspresis"

number of shares - 24%.  
transport agents, realization of oil/fuel products, rail transport services (is decided to close).

Ltd. "Metalurģs and Duna"

number of shares - 50%. sale of electricity and rentals of premises.

### Minority shareholders

Minority shareholders of the companies involved in the consolidation are:

LSEZ JSC "Liepājas osta LM" (Liepāja's Port LM)	4.83% of shares - physical person.
Ltd. "Football Hockey Club Liepājas metalurģs"	5% of shares - Ltd. "Pērle LM"
Ltd. "Olympic Center Ice-Hockey Hall Liepājas metalurģs"	5% shares - Liepājas City Council
	5% shares - Latvian Olympics Committee
Ltd. "Metalurģs and Duna"	50% shares - physical person

### Basis for the Preparation of the Financial Statements Report

The Annual Report is prepared in accordance with the law "On Accounting" and "On Annual Report" and is also in compliance with the European Union (EU) International Standards on preparation of the Financial Statements.

Companies included in consolidation have prepared their Quarterly Reports for the same period and applying the same accounting principles.

The following IFRS have been used in the preparation of the consolidation:

IAS 1	Preparation of the Financial Statements Report
IAS 2	Inventories (Stocks)
IAS 8	Accounting Policy, Changes in Accounting Reports and Errors
IAS 10	Events After the Annual Report Date
IAS 16	Fixed (Capital) Assets
IAS 21	Impact from the Foreign Currency Exchange Range Fluctuation
IAS 27	Consolidated and Non-Consolidated Financial Statements I Reports
IAS 39	Financial Tools: Recognition and Valuation

Assuming that the Company will continue its operations as a going concern, the valuation was conducted for:

- Production equipment inventory based on the average weighted prices
- Purchased goods according to the purchase price
- Finished goods margin after actual cost
- Fixed assets according to the purchase price and additional payments, which are connected to the erection and commissioning

**The Profit and Loss Statement** is prepared using the turnover method. Prior to the preparation of the consolidated Quarterly Report, differences in the accounting methods used by the companies included in the consolidation were considered. The Profit and Loss report includes all income and expenses that resulted from the accounting year regardless of their payment date. Any internal transactions between the companies that are a part of the consolidation were excluded.

**Net Turnover** is a total amount equal to the product annual sales and services offered, excluding VAT.

**Cash Flow Statement** is conducted by using direct method.

**Depreciation of fixed assets** is calculated at the time of useful life of a particular asset, by using the straight-line method. In the Balance Sheet all fixed assets are recorded at historical cost. Land depreciation is not calculated.

Revaluation of fixed assets is performed periodically. In compliance with the International Valuation standards, BDO "Invest Rīga" conducted the Fixed Assets revaluation in order to provide support for the 2004 and 2007 (completed on December 31) financial needs of the JSC "Liepājas metalurģs". As a result of this revaluation the value increase was recorded, which is shown in the Shareholders Equity item called "Long-Term Assets Revaluation Reserve".

Purchased computer software belongs to the **intangible assets** item. The value of the acquired intangible assets is depleting, while calculating their depreciation. Conducting a subsidiary reorganization and during the acquisition process a nonmaterial positive value appears.

**Investment properties** include buildings and land that the Company leases in order to generate additional earnings and increase the property value. These properties are not used in production, goods transport services, or for the need of administration. Investment properties are appraised based on their true value, which reflects the current market value. The appraisal is performed by the certified and licensed property appraiser - in this case by BDO "Invest Rīga". Corresponding profit or loss caused by the true value adjustments to the Investment Properties has been reflected in the Profit and Loss Statement.

**The cash flow statement** reflects cash and cash equivalents in the cash office, current bank account balances, and short-term deposit.

Values presented in the Annual Report and accounting are expressed in the Latvian national currency - lats (LVL). All foreign currency activities are recalculated by the official currency exchange rate of the Bank of Latvia on the transaction corresponding date. Assets and liabilities reported in a foreign currency are recalculated into Latvian Lats based on the official exchange rate at the Bank of Latvia on the last day of the reporting period. Foreign currency exchange profit or loss is reflected in the proper period Profit and Loss statement.

**Accounts receivable (debtors)** are presented in their book value, by deducting specific provisions for bad and doubtful debts. Following the conservative approach, the balance sheet includes only the actual accounts receivable dues. JSC "Liepājas metalurģs" uses such forms of short-term financing as factoring. The Company operates under a recourse factoring agreement, where the Company is held responsible in front of the bank in cases when the buyer fails to deliver the payment.

**Accounts Payable** obligations are reflected in costs. Credited advance payment is presented as loans (other loans).

**Provisions** are formed by the deferred corporate income tax, and savings from the unused vacation and social payments.

## Joint-Stock Company "Liepājas Metalurģs" Management Statement Regarding the Consolidated Annual Report 2007.

### Business type.

Steel production, ship chartering and ship agency, stevedoring, cargo handling and loading port services, construction materials production, sport arena management, athletic stadium and other sports and cultural activities.

### Summary of business operations during the reporting period.

The Company's Net Turnover in the reporting year is LVL 235.4 mill. (approx. EUR 335 mill.) and the consolidated profit is LVL 17.2 mill. (approx. EUR 24.54 mill.) The Net Turnover is 31 million LVL (approx. EUR 44 mill.) more than in 2006, and Profit is 7.5 million (approx. EUR 10.7 mill.) more. The profit and net turnover increase were primarily attributed to the price increase in raw materials and sold finished goods.

### Technical development of the Company.

The Company's technical development during the reporting period was primarily directed at:

- the continuation of activities concerning the steel melting production practice and related to its modernization program coordination and financing
- new cargo types development and infrastructure construction for the cement transit terminal
- installment of the new technology and its integration for making street paving and curbs products
- practice and training facilities were provided to the professional, amateur, and youth and children football teams as well as to hockey and basketball teams

### Use of profit.

Companies involved in the consolidation will invest their profits in the renovation of equipment and modernization of technology as well as in the development of the infrastructure.

### Forecast and further development.

The major tasks for year 2008 include:

- To continue the meltshop modernization;
- To continue construction of the new terminal;
- The enlargement of the production line for concrete type of products;
- To continue working with youth by involving them in sports and preparing new players for the national football, hockey and basketball teams.

JSC "Liepājas Metalurģs"

Chairman of the Board

\_\_\_\_\_

/V.Terentjevs/

Member of the Board

\_\_\_\_\_

/I.Segals/

Member of the Board

\_\_\_\_\_

/L.Ptičkins/



## **Statement Regarding the Management Responsibility.**

The JSC "Liepājas metalurģs" (in this text – the Company) Council and Board are responsible for the preparation of the Company and its affiliated enterprises (in this text – the Consolidated Group) consolidated financial statements.

The Financial Statements represent the true picture for the Consolidated Group financial position as of December 31, 2007 as well as the results of its operations and cash flow for the year 2007. The above-mentioned financial statements are prepared in accordance with the requirements of the International Accounting Standards for the financial statements, which are acceptable in the European Union. During the preparation of the financial statements the management:

- has been using and applying the appropriate accounting methods
- has been issuing justified and conservative conclusions and estimates
- has been adhering in accordance with the principle of the management's continuation

In the name of the JSC "Liepājas metalurģs",

Chairman of the Board	_____	/V.Terentjevs/
Member of the Board	_____	/I.Segals/
Member of the Board	_____	/L.Ptičkins/

**BALANCE SHEET**

ASSETS	Enclosure Number	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
<b>I. LONG-TERM INVESTMENTS</b>					
<b>I. Intangible investments</b>					
1. Concessions, patents, licenses, trademarks and similar rights		0	0	1384	1969
2. Other intangible assets		83823	119269	76119	108308
3. Goodwill		266072	378586	332589	
4. Advance payments for intangible investments		9113	12967	4560	
<b>LTOTAL:</b>		<b>359008</b>	<b>510822</b>	<b>414652</b>	<b>108308</b>
<b>II. Fixed assets</b>					
1. Land, buildings and constructions, and long-term sites		55682644	79229264	29954190	42620973
2. Long-term investments in rented fixed assets		5038619	7169309	4736896	6739996
3. Technological equipment and machinery		37904358	53933042	23399301	33294206
4. Other fixed assets and inventory		3821622	5437678	2505166	3564530
5. Fixed assets formation and costs of unfinished construction sites		3055970	4348254	2192699	3119930
6. Advance payments for fixed assets		367797	523328	1536809	2186682
<b>II. TOTAL:</b>		<b>105871010</b>	<b>150640876</b>	<b>64325061</b>	<b>91526316</b>
<b>III. Investment properties</b>					
1. Investment properties		4882333	6946934	3718574	5291054
<b>IV. Long-term financial investments</b>					
2. Share in the capital of related companies (subsidiaries)		0	0	0	0
1. Share in the capital of associated companies		488823	695532	458823	652846
3. Other loans		9920	14115	152439	216901
<b>IV. TOTAL:</b>		<b>498743</b>	<b>709647</b>	<b>611262</b>	<b>869747</b>
<b>Section 1 total amount:</b>		<b>111611094</b>	<b>158808279</b>	<b>69069549</b>	<b>98277114</b>
<b>2. CURRENT ASSETS</b>					
<b>I. Stock (Inventories)</b>					
1. Raw materials, basic and auxiliary materials		15783773	22458286	11084688	15772090
2. Unfinished products, Work in Process		2884425	4104167	1179043	1677627
3. Finished products and goods for sales		12660532	18014314	9941501	14145482
4. Incompleted orders		305204	434266	1128	1605
5. Advance payments for goods		3555008	5058321	2076990	2955291
6. Labour animals and productive animals		160	228	100	142
<b>I. TOTAL:</b>		<b>35189102</b>	<b>50069581</b>	<b>24283450</b>	<b>34552236</b>
<b>II. Accounts receivable (Debtors)</b>					
1. Trade accounts receivable		10076301	14337285	5710698	8125591
2. Debt of associated enterprises		32101	45676	36984	52623
3. Other debtors (accounts receivable)		3878529	5518650	1888266	2686760
6. Short-term loans to co-owners and management of the company		11970	17032	0	0
7. Prepaid expenses		156202	222255	355335	505596
<b>II. TOTAL:</b>	<b>1</b>	<b>14155103</b>	<b>20140897</b>	<b>7991283</b>	<b>11370571</b>
<b>III. Short-term financial investments</b>					0
<b>III. TOTAL:</b>			0	0	0
<b>IV. Cash</b>		6878793	9787641	4274115	6081518
<b>IV. TOTAL:</b>		<b>6878793</b>	<b>9787641</b>	<b>4274115</b>	<b>6081518</b>
<b>Section 2 total amount</b>		<b>56222998</b>	<b>79998119</b>	<b>36548848</b>	<b>52004326</b>
<b>TOTAL ASSETS</b>		<b>167834092</b>	<b>238806398</b>	<b>105618397</b>	<b>150281440</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	Enclosure Number	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
<b>1. SHAREHOLDERS' EQUITY</b>					
1. Share capital (fixed capital)		16981033	24161833	16981033	24161833
2. Long-term investments revaluation reserve		63482225	90327068	25346868	36065344
3. Reserves: a) reserves stipulated by law			0		0
3. Reserves: b) other reserves		21959004	31244848	12491727	17774126
<b>3. TOTAL:</b>		<b>21959004</b>	<b>31244848</b>	<b>12491727</b>	<b>17774126</b>
4. Retained earnings: a) undistributed profit from the previous years		53951	76765	18	26
4. Retained earnings: b) undistributed profit of the reporting year		17358517	24698945	9939575	14142741
4. Retained earnings: c) Minority shareholders		-169743	-241523	-302055	-429786
4. Retained earnings: b+c undistributed profit of the reporting year		<b>17188774</b>	<b>24457422</b>	<b>9637520</b>	<b>13712956</b>
<b>section 1 total amount:</b>		<b>119664987</b>	<b>170267937</b>	<b>64457166</b>	<b>91714284</b>
Minority shareholders		<b>212095</b>	<b>301784</b>	<b>485816</b>	<b>691254</b>
<b>2. PROVISIONS</b>					
1. Provisions for anticipated taxes		161472	229754	1527255	2173088
2. Other provisions		1961763	2791337	4922614	7004249
<b>section 2 total amount:</b>		<b>2123235</b>	<b>3021091</b>	<b>6449869</b>	<b>9177337</b>
<b>3. LIABILITIES (Accounts payable)</b>					
<b>I. Long-term Creditors (Accounts payable)</b>					
1. Loans from credit institutions		1816827	2585112	981400	1396406
2. Other loans		818653	1164838	725579	1032406
3. Debts to suppliers and contractors			0	0	0
4. Other liabilities		200000	284574	200000	284574
<b>I. TOTAL:</b>		<b>2835480</b>	<b>4034525</b>	<b>1906979</b>	<b>2713387</b>
<b>II. Short-term Creditors (Accounts payable)</b>					
1. Loans from credit institutions		15805889	22489754	9694913	13794618
2. Other loans		4398273	6258179	1882792	2678972
3. Advance payments received from customers		8683302	12355226	10892955	15499279
4. Suppliers and contractors trade account payable		11441710	16280087	7487105	10653191
5. Accrued liabilities (payable bills of exchange)		137484	195622	121765	173256
6. Payable (debt) to associated companies		12515	17807	46811	66606
7. Taxes and state social insurance payments	3	1199675	1706984	1168223	1662232
8. Other liabilities		1304301	1855853	1005430	1430598
9. Deferred income			0	3427	4876
10. Unpaid dividends for previous years		15146	21551	15146	21551
<b>II. TOTAL:</b>		<b>42998295</b>	<b>61181062</b>	<b>32318567</b>	<b>45985178</b>
<b>Section 3 total amount:</b>	2	<b>45833775</b>	<b>65215586</b>	<b>34225546</b>	<b>48698565</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>167834092</b>	<b>238806398</b>	<b>105618397</b>	<b>150281440</b>

JSC "Liepājas Metalurģs"  
 Chairman of the Board

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/V.Terentjevs/

Member of the Board

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/I.Segals/

Member of the Board

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/L.Ptičkins/

### PROFIT AND LOSS STATEMENT

No.	Parameter designation	Enclosure Number	At the end of the report period LVL	At the end of the report period EUR	12months 2006 LVL	12 months 2006 EUR
1	2	3	4	5	6	7
1	Net turnover	4, 5	235421551	334974689	204455039	290913312
2	Production costs of goods sold	6	-195818134	-278624103	-170414605	-242478138
3	Gross profit or loss (from turnover)		39603417	56350586	34040434	48435174
4	Sales costs	7	-16564673	-23569406	-11554551	-16440645
5	Administration costs	8	-9242132	-13150369	-8478109	-12063262
6	Other operating income	9	8529672	12136630	4132611	5880176
7	Other operating costs	10	-3319224	-4722830	-5497769	-7822621
8	Interest income and other similar income		91727	130516	46393	66011
9	Interest payments and similar expenses		-612031	-870842	-519230	-738798
10	Profit or loss before extraordinary items and taxes		18486756	26304284	12169779	17316035
11	Income tax for the reporting period		-2264307	-3221819	-1676997	-2386152
12	Deferred tax		1374425	1955631	-488928	-695682
13	Other taxes		-408100	-580674	-366334	-521246
14	Reporting period profit or loss after taxes for the consolidated financial statement		17188774	24457422	9637520	13712956

In the Financial Statements the LVL amounts were converted into EUR by applying the Bank of Latvia exchange rate at EUR 0.702804 (divide).

JSC "Liepājas Metalurģs"

Chairman of the Board

\_\_\_\_\_

/V.Terentjevs/

Member of the Board

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/I.Segals/

Member of the Board

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/L.Ptičkins/

**CASH FLOW STATEMENT**  
**(by direct method)**

	Reporting year		12 months of the year 2006	
	LVL	EUR	LVL	EUR
<b>OPERATING CASH FLOW</b>				
Cash received from buyers	243233648	346090301	216504676	308058400
Cash received from other business activities	1301425	1851761	655424	932584
VAT overpayment received	11068311	15748788	10377835	14766329
Cash paid to suppliers and employees	-235861892	-335601237	-204661124	-291206544
<i>Cash received from the core business activity</i>	<i>19741492</i>	<i>28089612</i>	<i>22876811</i>	<i>32550769</i>
Interest payment	-567119	-806938	-473463	-673677
Corporate income tax payments	-25829	-36751	-32867	-46766
Other tax payments	-16169592	-23007257	-9725053	-13837504
<b>Net cash flow from the core business activity</b>	<b>2978952</b>	<b>4238667</b>	<b>12645428</b>	<b>17992823</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>				
Investments in associated and related companies	-3474280	-4943455	-712500	-1013796
Sale of fixed assets and intangible assets	182095	259098	80085	113951
Acquisition of fixed assets	-8687353	-12360990	-10634882	-15132074
Long-term credit to students of JSC "LM" and other loans	12452	17718	-6880	-9789
Other loans granted	262	373	-140000	-199202
Investments in related companies (subsidiaries)	0	0	0	0
Interests received from the loan	0	0	0	0
<b>Net cash flow from investment operations</b>	<b>-11966824</b>	<b>-17027257</b>	<b>-11414177</b>	<b>-16240911</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Short term borrowings, net value (credit line)	1816748	2585000	283277	403067
Long term borrowings	11068769	15749439	1167617	1661369
Paid liabilities for financial leasing	-74813	-106449	0	0
Loans to associated companies	-22000	-31303	-1000	-1423
Other long-term loans	0	0	-80502	-114544
Loan repayments	9542	13577	-348482	-495845
Repayment of loans of associated and related companies	-920852	-1310254	0	0
Other investments (sponsorship)	-279135	-397173	-646816	-920336
Subsidies	17895	25462	1139716	1621670
<b>Net cash flow from financing activities</b>	<b>11616154</b>	<b>16528298</b>	<b>1513810</b>	<b>2153958</b>
Result of foreign currency exchange rate fluctuations	-23605	-33587	-150542	-214202
Net growth of cash and its equivalents	<b>2604677</b>	<b>3706121</b>	<b>2594519</b>	<b>3691668</b>
Cash and its equivalents at the beginning of accounting period	4274116	6081519	1679596	2389850
Cash and its equivalents at the end of accounting period	<b>6878793</b>	<b>9787641</b>	<b>4274115</b>	<b>6081518</b>

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	Share capital	Revaluation reserve of long-term investments	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	LVL	LVL	LVL	LVL	LVL	LVL	LVL
<b>As of 1.01.2006</b>	<b>16981033</b>	<b>26145842</b>	<b>346579</b>	<b>7987544</b>	<b>4015743</b>	<b>412493</b>	<b>55889234</b>
Profit in reserves				4157604	-4015743	-141861	0
Undistributed profit of the reporting period					9637520		9637520
Reserves distribution			-346579	346579			0
Minority shareholders						-270614	-270614
Increase of revaluation reserve							
Written-off revaluation reserve		-798974					-798974
<b>As of 31.12.2006</b>	<b>16981033</b>	<b>25346868</b>	<b>0</b>	<b>12491727</b>	<b>9637520</b>	<b>18</b>	<b>64457166</b>
Profit in reserves				9467277	-9637520	170243	0
Undistributed profit of the review period					17188774		17188774
Minority shareholders						-116310	-116310
Reserves distribution							0
Increase of revaluation reserve		38605653					
Written-off revaluation reserve		-470296					-470296
<b>As of 31.12.2007</b>	<b>16981033</b>	<b>63482225</b>	<b>0</b>	<b>21959004</b>	<b>17188774</b>	<b>53951</b>	<b>119664987</b>

	Share capital	Revaluation reserve of long-term investments	Reserves stated by Statute	Other reserves	Retained Earnings of the reporting year	Retained Earnings of the previous years	Equity capital TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>As of 01.01.2006</b>	<b>24161833</b>	<b>37202182</b>	<b>493137</b>	<b>11365251</b>	<b>5713888</b>	<b>586925</b>	<b>79523216</b>
Profit in reserves				5915738	-5713888	-201850	0
Reserves distribution			-493137	493137			0
Undistributed profit of the reporting period					13712956		13712956
Minority shareholders						-385049	-385049
Currency exchange rate fluctuation							0
Increase of revaluation reserve							0
Written-off revaluation reserve		-1136838					-1136838
<b>As of 31.12.2006</b>	<b>24161833</b>	<b>36065344</b>	<b>0</b>	<b>17774126</b>	<b>13712956</b>	<b>26</b>	<b>91714285</b>
Profit in reserves				13470722	-13712956	242234	0
Undistributed profit of the review period					24457421.98		24457422
Currency exchange rate fluctuation							0
Minority shareholders						-165494	-165494
Increase of revaluation reserve		54930895					54930895
Written-off revaluation reserve		-669171					-669171
<b>As of 31.12.2007</b>	<b>24161833</b>	<b>90327068</b>	<b>0</b>	<b>31244848</b>	<b>24457421.98</b>	<b>76766</b>	<b>170267937</b>

## ENCLOSURES TO THE ANNUAL REPORT

### ENCLOSURES TO BALANCE SHEET

#### 1. ACCOUNTS RECEIVABLE (DEBTORS)

Accounts Receivable	As of 31.12.2007		As of 31.12.2006	
	LVL	EUR	LVL	EUR
<b>Customers and affiliated companies' debts</b>	<b>10108402</b>	<b>14382960</b>	<b>5747682</b>	<b>8178215</b>
Incl. Debts of buyers and customers	7851170	11171208	5710698	8125591
Incl. Debts of related enterprises (subsidiaries)	0	0	0	0
Incl. Debts of associated enterprises	32101	45676	36984	52623
Incl. Debts of buyers with factoring activities	2225131	3166076	0	0
<b>Other debtors</b>	<b>3878529</b>	<b>5518650</b>	<b>1888266</b>	<b>2686760</b>
Incl. Provision for VAT and unpaid VAT	158060	224899	148496	211291
Incl. Advance payments	10598	15080	32614	46406
Incl. VAT budget overpayments	3435854	4888780	1489266	2119035
Incl. Various debtors	34803	49520	151423	215456
Incl. Overpaid salaries	55	78	58	83
Incl. Other overpaid taxes	20200	28742	37625	53536
Incl. Advance payments for services	17344	24678	28784	40956
Incl. Security amounts in auction	11337	16131	0	0
Incl. Advance prepayment for Corporate income tax	190278	270741	0	0
<b>Short-term loans to employees</b>	<b>11970</b>	<b>17032</b>	<b>0</b>	<b>0</b>
<b>Future periods payments</b>	<b>156202</b>	<b>222255</b>	<b>355335</b>	<b>505596</b>
Incl. Press expenses	9584	13637	8838	12575
Incl. Property insurance	20220	28770	43429	61794
Incl. Payment for services	9975	14193		0
Incl. Payment for ship freightage services	0	0	265625	377950
Incl. Training Camps	0	0	23838	33918
Incl. Rent payments	59659	84887	0	0
Incl. Publicity and Advertisement	41250	58693	0	0
Incl. Various	15514	22074	13605	19358
<b>Total Debtors:</b>	<b>14155103</b>	<b>20140897</b>	<b>7991283</b>	<b>11370571</b>



**2. ACCOUNTS PAYABLE (CREDITORS)**

CREDITORS	As of 31.12.2007		As of 31.12.2006	
	LVL	EUR	LVL	EUR
<b>Long-term creditors</b>	1816827	2585112	981400	1396406
<b>Other long-term borrowings</b>				
<b>Long-term debt to suppliers and contractors</b>	818654	1164840	925579	1316980
<b>Other long-term creditors</b>	0	0	0	0
<b>Other long-term creditors</b>	200000	284574	0	0
<b>Short-term borrowings from credit institutions</b>	15805889	22489754	9694913	13794618
<b>Short term debt from leasing</b>	1441204	2050649	99768	141957
<b>Advance payments</b>	8683302	12355226	10892955	15499279
<b>Other borrowings (factoring)</b>	2957069	4207530	1783024	2537015
<b>Debts to suppliers and contractors</b>	<b>11441710</b>	<b>16280087</b>	<b>7487105</b>	<b>10653191</b>
Incl. Materials and gas	6935149	9867828	4241719	6035422
Incl. Services	2078767	2957819	1565601	2227650
Incl. Scrap, various services related to scrap delivery, processing	2235121	3180291	1251283	1780415
Incl. Fixed assets	187351	266576	267582	380735
Incl. Medical department creditors	3919	5576	2875	4091
Incl. Other Creditors	1403	1996	158045	224878
<b>Debts to related enterprises (subsidiaries)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Debts to associated enterprises</b>	<b>12515</b>	<b>17807</b>	<b>46811</b>	<b>66606</b>
<b>Taxes and social security insurance payments</b>	<b>1199674</b>	<b>1706982</b>	<b>1168223</b>	<b>1662232</b>
Incl. State tax	801	1140	722	1027
Incl. Residents' Income tax	486171	691759	353800	503412
Incl. Real estate tax	2677	3809	240	341
Incl. Social Security tax	667504	949773	462254	657728
Incl. Packing tax	3503	4984	2388	3398
Incl. Nature resources tax	23456	33375	20286	28864
Incl. Enterprise's Income tax	2329	3314	303911	432426
Incl. Settlements with business partners-non residents	0	0	0	0
Incl. Value added tax	13233	18829	24622	35034
<b>Other creditors (liabilities)</b>	<b>1304301</b>	<b>1855853</b>	<b>1005430</b>	<b>1430598</b>
Incl. Payments for salaries	1268085	1804322	975804	1388444
Incl. Deductions from salaries	35621	50684	29626	42154
Incl. Debt to accountable persons	595	847	0	0
<b>Accrued liabilities</b>	<b>137484</b>	<b>195622</b>	<b>121765</b>	<b>173256</b>
<b>Deferred Income</b>	<b>0</b>	<b>0</b>	<b>3427</b>	<b>4876</b>
<b>Unpaid Dividends</b>	<b>15146</b>	<b>21551</b>	<b>15146</b>	<b>21551</b>
<b>Total Creditors:</b>	<b>45833775</b>	<b>65215586</b>	<b>34225546</b>	<b>48698565</b>

### 3. TAXES AND SECURITY PAYMENTS

Tax Description	Balance as of 1.01.2007		Recorded for year 2007		Paid or allocated to a different tax category for 12 months of 2007		Balance as of 31.12.2007	
	LVL	EUR	LVL	EUR	LVL	EUR	LVL	EUR
Real estate tax	240	341	369805	526185 0	367368	522718	2677	3809
Land tax	0	0	41782	59450	41782	59450	0	0
Income tax	353800	503412 0	4825483	6866044	4693112	6677697	486171	691759
Social security tax	462254	657728	6580866	9363729	6375616	9071684	667504	949773
Business risk duty	722	1027	9616	13682	9537	13570	801	1140
Corporate income tax	303911	432426	2305321	3280176	2606903	3709289	2329	3314
Nature resources tax	20454	29103	101464	144370	98462	140099	23456	33375
Packing tax	2220	3159	9428	13415	8144	11588	3504	4986
Value added tax	24622	35034	8245144	11731783	8256533	11747988	13233	18829
Excise tax	0	0	204062	290354	204062	290354	0	0
<b>TOTAL</b>	<b>1168223</b>	<b>1662232</b>	<b>22692971</b>	<b>32289189</b>	<b>22661519</b>	<b>32244437</b>	<b>1199675</b>	<b>1706984</b>

## ENCLOSURES TO PROFIT AND LOSS STATEMENT

### 4. NET TURNOVER (REVENUE)

Product Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Rolled steel	217491995	309463229	187081161	266192510
Wire	1429	2033	1172961	1668973
Nails	0	0	310031	441134
Consumer goods	23823	33897	9595	13652
Castings	2701254	3843538	2390944	3402007
Services	249397	354860	221698	315448
Sold steam, gCal	16752	23836	15309	21783
Medical department	994131	1414521	710190	1010509
Transportation services	93621	133211	114167	162445
Slag	0	0	206606	293974
Stevedoring services	2436399	3466683	2974000	4231621
Broker services	1982153	2820350	1788448	2544732
Freightage services	1427503	2031154	2084403	2965838
Forwarder and other services	6469799	9205695	4832063	6875406
Sports	297327	423058	163213	232231
Beton (concrete) wares	1071409	1524478	263053	374291
Publicity and Advertisement	49299	70146	32082	45649
Other	115260	164000	85115	121108
<b>TOTAL</b>	<b>235421551</b>	<b>334974689</b>	<b>204455039</b>	<b>290913312</b>

**5. NET TURNOVER BY GEOGRAPHIC MARKETS**

Market	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Latvia	38735692	55115924	32468330	46198271
Lithuania	15179423	21598373	11544641	16426544
Estonia	8510601	12109494	6569064	9346936
European Union countries	120288011	171154420	109681495	156062707
Russia	28951130	41193747	15024207	21377521
Other third countries	23756694	33802730	29167302	41501332
<b>Total</b>	<b>235421551</b>	<b>334974689</b>	<b>204455039</b>	<b>290913312</b>

**6. PRODUCTION COSTS OF SOLD GOODS**

Cost Description	12 months for year 2007		12 months for year 2006	
	LVL	EUR	LVL	EUR
Materials	144396302	205457428	124421038	177035188
Salaries and wages	16108980	22921014	11978038	17043213
Social benefits deduction	3756948	5345655	2811167	3999930
Energy resources	18412050	26197987	16134034	22956662
Depreciation	6571733	9350734	5825253	8288588
Other costs	6505268	9256162	9245075	13154557
Write-off of nonmaterial values	66853	95123	0	0
<b>Total</b>	<b>195818134</b>	<b>278624103</b>	<b>170414605</b>	<b>242478138</b>

**7. SALES EXPENSES**

Cost Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Packing materials	145841	207513	151385	215401
Transportation costs	1827386	2600136	1042653	1483562
Freight	2226823	3168484	789617	1123524
Port handling charges	17848	25395	34809	49529
Advertising and marketing costs	311849	443721	89679	127602
Other sales costs	207722	295562	34306	48813
Costs related to L/C and factoring transactions	95996	136590	326100	463998
Sertification of products	147162	209393	191940	273106
Logistics services costs	11584046	16482613	8894062	12655110
<b>Total</b>	<b>16564673</b>	<b>23569406</b>	<b>11554551</b>	<b>16440645</b>

**8. ADMINISTRATION EXPENSES**

Cost Description	For 12 months of year 2007		For 12 months of year 2006	
	LVL	EUR	LVL	EUR
Salaries and social costs	5891499	8382848	5894421	8387005
Communication costs	229754	326910	224977	320113
Office supplies and office maintenance costs	1652059	2350668	1292819	1839516
Legal and auditing fees	670703	954324	232721	331132
Presentation costs	197589	281144	107570	153058
Depreciation of fixed assets	424065	603390	481813	685558
Traveling expenses	131681	187365	127781	181816
Management training	15828	22521	18082	25728
Costs of bank account services	18389	26165	79896	113682
Costs related to stockholders	10218	14539	6573	9353
Operative leasing	347	494	8596	12231
Workers Union funds	0	0	2860	4069
<b>Total</b>	<b>9242132</b>	<b>13150369</b>	<b>8478109</b>	<b>12063262</b>

**9. OTHER OPERATING INCOME**

Income Description	12 months of year 2007		12 months of year 2006	
	LVL	EUR	LVL	EUR
Sale of current assets	1445324	2056511	1219048	1734549
Sale of fixed assets and liquidation	188455	268147	107697	153239
Currency exchange income	0	0	0	0
Costs of reserve establishment	372959	530673	77377	110098
Written-off revaluation reserve of fixed assets	470297	669172	798974	1136838
Bad debt recovery	222698	316871	65205	92778
Sponsorship income	0	0	0	0
Received fine payments	42755	60835	17492	24889
Dotation (allowance)	734633	1045289	1681422	2392448
Other income from operating activity	2064817	2937970	165396	235337
Written-off accumulated provisions	2987734	4251162	0	0
<b>Total</b>	<b>8529672</b>	<b>12136630</b>	<b>4132611</b>	<b>5880176</b>

**10. OTHER OPERATING COSTS**

Cost Description	12 months of year 2007		12months of year 2006	
	LVL	EUR	LVL	EUR
Sales costs of current assets and transit cargo expenses	1112574 0	1583050 0	992207 0	1411783 0
Costs related to the sale and liquidation of fixed assets	169852	241678	389519	554236
Fixed Assets value reduction	304534	433313	89325	127098
Currency exchange loss	264546	376415	352426	501457
Costs of reserve establishment	56223	79998	1974888	2810012
Compensation for damage and other allowances	301766	429374	351058	499511
Paid fines	91822	130651	54629	77730
Costs of infrastructure maintenance	49005	69728	19936	28366
Other costs and sponsorship	192693	274177	899531	1279917
Other costs	403284	573821	293197	417182
Written-off bad debtors	308181	438502	81053	115328
Training of new employees	64744	92122	0	0
<b>Total</b>	<b>3319224</b>	<b>4722830</b>	<b>5497769</b>	<b>7822621</b>



**INFORMATION FOR PERSONNEL EXPENSES**

	JSC "Liepājas Metalurģs"	JSC "Port LM"	Ltd. Football - hockey club	Ltd. "Olympic center ice - hockey hall"	Ltd."Metalurģs & Duna"	JSC "Rūķis LM"	TOTAL in the consolidated annual report
1. Average number of employees							
12 mo. 2007	2650	264	115	19	4	50	3102
12 mo. 2006	2700	239	102	19	4	38	3102
2. Personnel expenses, LVL, (including salaries and wages)							
<b>LVL 2007</b>	<b>17950224</b>	<b>1278300</b>	<b>332179</b>	<b>73072</b>	<b>11552</b>	<b>289015</b>	<b>19934342</b>
EUR 2007	25540868	1818857	472648	103972	16437	411231	2823146
<b>LVL 2006</b>	<b>13120291</b>	<b>1041084</b>	<b>272952</b>	<b>53885</b>	<b>10567</b>	<b>88404</b>	<b>14587183</b>
EUR 2006	18668492	1481329	388376	76671	15035	125788	20755691
3. Average earning LVL							
<b>LVL 2007</b>	<b>564.47</b>	<b>403.51</b>	<b>240.71</b>	<b>320.49</b>	<b>240.67</b>	<b>481.69</b>	<b>535.52</b>
EUR 2007	803.17	574.14	342.50	456.02	342.44	685.38	761.98
<b>LVL 2006</b>	<b>404.95</b>	<b>363.00</b>	<b>223.00</b>	<b>236.34</b>	<b>220.15</b>	<b>465.28</b>	<b>391.90</b>
EUR 2006	576.19	516.50	317.30	336.28	313.25	662.03	557.62

LVL to EUR currency exchange rate 0.702804 (divide).